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USSR Report

ECONOMIC AFFAIRS

(FOUO 8/80)



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USSR REPORT
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ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

COST ACCOUNTING IN PRODUCTION MANAGEMENT

Moscow VOPROSY EKONOMIKI in Russian No 2, Feb 80 pp 3-14

[Article by D. Allakhverdyan: "Cost Accounting Mechanism for Managing and Stimulating Production"]

[Text] L. I. Brezhnev in his report to the Central Committee of the 25th party congress pointed out that many links of the economic mechanism need considerable improvement on the basis of more skillful utilization of economic stimuli and levers: cost accounting, profit, prices, bonuses, improvement of the organizational structure and management methods, and of the entire system of planning. In this connection, of great importance is the decree of the Central Committee of the party and the USSR Council of Ministers "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Raising the Efficiency of Production and the Quality of Work," which marks a new stage in the development of the theory and practice of socialist economics. Special attention is given to problems of improving cost accounting relationships that achieved a new level of development at the stage of mature socialism.

In classifying economic relationships, it is necessary to differentiate between two relatively independent and, at the same time, organically interrelated spheres. The first -- a sphere of centralized planning management, stipulated by the integrity of socialist economics as a single national economic complex that spans all links of social production, distribution and exchange. This is the most important advantage of the socialist society over the capitalist society, in which trends to unity on the basis of concentration and centralization do not remove but deepen the basic contradiction of capitalism. It "reproduces as a contradiction between the organization of production at individual factories and production anarchy in the entire society."* The second -- is the management sphere on the production link level that provides for the functioning of production associations (enterprises) on the basis of cost accounting principles, subordinated to the general systematic development.

* K. Marx and F. Engels, Papers, vol. 19, p 217.

In the Ninth and Tenth Five-Year Plan periods, large economic experiments were carried out in our country on improving the systems of planning, management and cost accounting relationships. They proved that problems of improving cost accounting relationships, as well as of the entire economic mechanism as a whole, cannot be solved successfully as a result of improving some one indicator. A comprehensive approach to the solution of the problem dictates the use of a system of indicators in their organic relationship taking into account the specifics of each production link. Only in this case is it possible to create economically substantiated conditions for complete cost accounting and increasing its efficiency.

Cost accounting -- is an economic category of socialism, used by the government for planned management of economically independent production links. Of great importance to the functioning of these links are the principles of economic incentives and material responsibility, realized through the system of equivalent relationships that takes into account and monitors the measures of labor and consumption. The development and improvement of cost accounting relationships at the stage of mature socialism proceed in the direction of their efficiency along the vertical, based on the hierarchy of production management in the industrial aspect, as well as along the horizontal taking into account the complication of interindustrial production relationships in a single national economic complex.

Cost accounting principles, forms and production control methods are based on the comprehensive utilization of the system of economic laws of socialism. The effect of the basic economic law of socialism predetermines the target function of cost accounting, taking into account the system of interests and the necessity for the fullest satisfaction of society's needs at minimum costs.

The law of systematic proportional development dictates the possibility and necessity of planned management of cost accounting enterprises on the basis of technical progress and of optimizing economic relationships within the framework of centralized economic parameters established by the government. In this case, economic limits are determined and objective boundaries of the independence of cost accounting in the enterprises in the hierarchy of planned management are formed.

The essence of cost accounting relationships is demonstrated in the process of planned management. The expressions of this are: first, the use of such forms and methods of management due to which the action of economic laws on a national economic scale "are related to" concrete practice; secondly, the development of forms and methods of management that provide for an optimal combination of centralized planned management with the economic independence of enterprises on the basis of democratic centralism principles.

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An improvement in the planning system, a conversion of the five-year plan into the basic form of planning economic and socialist development on the basis of long-range economic norms make it possible for collectives of production associations, enterprises and industry as a whole to show initiative in maneuvering internal economic reserves.

Of great importance in understanding the essence of cost accounting as an economic category of socialism is uncovering its ties to the utilization of commercial-financial relationships and the law of costs. The law of costs in the planning process is used as a means of applying equivalency (economic retribution) principles in the relationships between cost accounting enterprises. The effect of this law is demonstrated through corresponding cost forms such as price, production cost, profit and financial-credit relationships.

However, it would be a mistake to base the necessity of cost accounting and its principles on the basis of the commercial-financial relationships alone. Regrettably, even now in our opinion, one meets erroneous statements on the problem of the place of the law of costs in the socialist economic mechanism and in the system of the economic laws of socialism.* It is asserted that the law of costs in a socialist society has no smaller an effect on the utilization of the basic economic law of socialism than the labor distribution law or the increase in labor productivity law. However, in socialism, the proportion of social production is not regulated by the law of costs. Therefore, it cannot be a basis for a socialist economic mechanism.

Some economists, in analyzing the economic laws of socialism, put forth the thesis that the mechanism of their utilization, supposedly, does not reflect the deepest objective processes and interrelationships in economic life and touches on only "the very tip of socialist production relationships." Concrete expressions of this, in their opinion, are cost accounting relationships, the system of wages and the effect of other categories, related to the use of cost forms.**

It follows from such a position that cost accounting is not a fundamental directly social relationship and expresses only "their surface layer," in which commercial-financial relationships are "included" in the system of production relationships. Such understanding of the problem, in particular, is related to the acknowledgement of the commercial category only in relationships between enterprises and its denial on the national economic level.

* Thus, T. V. Checheleva writes: "The law of costs is the basis of the economic mechanism in the first phase of development of the communist society" (see thesis of reports at the scientific conference "Economic levers in increasing the efficiency of social production and improving the quality of work and products." Moscow, 1979, p 23).

** See A. Ruban. Economic laws in a developed socialist society (VOPROSY EKONOMIKI no 6, 1979, p. 17).

At the stage of mature socialism, cost accounting relationships develop in depth and in breadth, and they become greater. The principles of complete cost accounting provide for the following: first, the maximum interest of cost accounting production links in adopting intensive plans on the basis of involving intrasconomic reserves in the economic turnover; secondly, economic premises for stimulating the introduction of achievements of scientific-technical progress; thirdly, an interest of the enterprises in raising the quality of the manufactured products for a given assortment and optimal proportions.

Under conditions of the functioning of the national economy as a single complex, the efficiency of cost accounting assumes the responsibility of the above-standing production link for the economic consequences of its adopted decision. Complete cost accounting is a multiple-step management method. It touches upon the interests of all contractors who become economic subjects in the system of industry. Therefore, interest in cost accounting and other stimuli must span all links of industrial management.

As the production concentration level increases, the necessity also increases of solving the contradiction between the development of production forces and the degree of socialist collectivization of production. A form of solving the indicated contradiction is the creation and development of large production associations which at present are becoming the basic cost accounting links of the national economy. New forms of cost accounting relationships between associations, on one hand, and between associations and higher-standing production links -- on the other.

To determine the completeness of cost accounting as applied to various levels of production management, it is important to expose to what extent the functioning of cost accounting spans the activity of a given production link in accordance with its place and role in the management structure. In this case, sometimes the correctness of posing the question of industrial cost accounting is denied. This denial is usually argued in the following manner. It is mentioned that ministries are not economic organs and as a structural link of government management are referred to as the superstructural category, that they do not produce goods and do not carry direct material responsibility for the economic activity of subordinate enterprises. The changeover of an industry to cost accounting principles would seemingly limit the rights of the production associations and reduce their responsibility of production, while the ministries themselves would become commercial organs, which would strengthen the narrow-departmental interests to the harm of general government interests.

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These arguments are not convincing. We are talking not about the management apparatus of this or that ministry, but, first of all, about a corresponding industrial sector or subsector of material production as links of a single national complex. It is wrong, therefore, to "tear away" a ministry from the economic role it plays. Industrial cost accounting must operate on principles of democratic centralism and, in accordance with the USSR constitution, combine in itself centralized management with the initiative of enterprises and associations.

Sectors and subsectors of industry are production-economic complexes. The following basic principles of cost accounting are applicable to them: economic independence, operation on the "expenditures- results" principle; changeover to the principle of self-support (self-financing); the use of an economic incentive system; material responsibility to the government and partners in cooperation, etc. The realization of the indicated principles provides for direct participation of the industrial sector in the circulation of funds. The changeover of an industrial sector to cost accounting principles means the creation of a single system of economic relationships on the basis of self-support, including capital construction, planning-research, experimental-design, scientific research, procurement-marketing and other organizations and services.

Within the framework of the five-year plan period, long-range cost accounting norms for ministries are approved on the basis of which deductions are determined for profits for expanded reproduction, development of science and engineering, etc.; the planned wage fund, and deductions for the economic incentive funds.

For those industrial sectors that, where changed over to the new economic operation, do not have enough profits to finance capital construction, for example, the USSR Ministry of Tractor and Agricultural Machine Building, a certain maximum budget allotment is established to an amount of 30% of the total annual volume of capital investments. In the future, as profitability increases, it is planned to change over other industrial sectors also to cost accounting financing sources along with the use of bank credit. Experience has shown cost accounting method of financing justified itself fully. Thus, the USSR Ministry of Instrument Building, Automation Facilities and Control Systems achieved high stable results in its production-economic activity in the course of the experiment and is fulfilling successfully the plan for all basic indicators. The production volume in this ministry for the first three years of the five-year plan period (1976-1978) was 136.6% as against 136.2% per plan. The profit was 180% as compared to 178% per plan and the labor productivity -- 131% as against 129.1% per plan. The ratio of highest quality products increased substantially. Considerable successes were achieved by the sector in the field of

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scientific-engineering progress. In the last five years, almost 60% of the products manufactured in this sector were renovated.

In applying cost accounting principles on an industrial sector scale, of great importance is the gradual introduction of cost accounting in industrial and construction ministries specified by the decree of the Central Committee of the party and the USSR Council of Ministers (July 1979). The many years of experience of instrument builders who are introducing the indicated principles successfully, the experiment in the USSR electrical equipment industry on stimulating technical progress, the experience of the USSR Ministry of Heavy Industry and others confirmed the necessity of introducing cost accounting in the industrial sector.

Profit is the most important structural component of cost accounting. In socialism, it plays the role of a cost accounting criterion of production efficiency, supplementing the national economic criterion of efficiency. Profit fulfills this role if it is obtained as a result of the efforts of the given collective. In practice, however, a considerable share of the obtained profit is sometimes related to changes in management conditions (review of wholesale prices, planned assortment of products) or violation of the planned discipline (an increase in production costs and prices, producing highly profitable products to the detriment of the planned assortment, deterioration of product quality, etc.). A good role is played by factor-by-factor analysis of the obtained profit for the purpose of the government and, partly, the industrial sector's taking that part of it which was not related to the efforts of the given enterprise. It is also necessary to improve the system of profit distribution of a cost accounting production link. The existing order of payments for funds and fixed payments were found to be not efficient enough. The free profit residue, which does not carry in itself cost accounting stimuli of production efficiency growth, plays a considerable role in budget interrelationships. The free profit residue will become superfluous with the changeover to the norm method of distribution. The system for fund payments will be improved in volume, as well as in payment conditions, and many previously introduced privileges will be eliminated. The stability of wholesale prices for products during the entire five-year plan period, for which cheaper materials are used while preserving the quality at the previous level, will be facilitated by providing the stability of the planned assortment of the manufactured products and eliminate the division of it by enterprises into "profitable" and "unprofitable". In planning wholesale prices for new products, characterized by the use of less material, the enterprises will maintain the size of the profits obtained from the sale of previously manufactured products, but not lower than the profitability norm.

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The further development of cost accounting in production associations is being based on the goals of the five-year plan and long-range economic norms. This insures the creation of more flexible and stable economic and financial relationships between enterprises and government. At the same time, the cost accounting independence of enterprises expands, their responsibility increases which, in turn, is related to a guaranteed increase in the resources left at their disposal in direct relationship with the improvement in the final result of the productive activity, with a simultaneous increase in deductions to the government budget. All of this assumes the use of planned, stable five-year plan norms that stimulate an increase in the efficiency of production and utilization of internal economic reserves.

A large role in this is given to the profit distribution method on the basis of planned goals and norms that specify its distribution (including the additional profit obtained due to more efficient work) between the production associations, on one hand, and the government budget, on the other.

As shown by the experience of the USSR Minpribor on introducing the norm-share profit distribution, this order insures stability in financial relationships with the government and stimulates the utilization of the internal reserves of the enterprises. To increase the economic responsibilities of the associations and ministries as a result of financial-economic activity and their interest in the efficiency of the utilization of resources in the 11th Five-Year Plan period, stable norms for deductions from profits (differentiated by years) will be established for industrial ministries. When their own sources are insufficient for financing capital investments, it is planned to use bank credit and money from the government budget. In case the profit plan is not fulfilled in any year of the five-year plan, payments to the budget must be made to the full amount by a corresponding reduction in the profit remaining at the disposal of the ministry.

The compulsory premise of the efficient utilization of the norm method for profit distribution is the stability of planned tasks and wholesale prices for the five-year plan period. The readiness of the industrial ministries to change over to stable profit deduction norms is related to the achievement of such a profitability level at which the following are insured: financing of capital investments, liquidation of bank credits and payment of a corresponding percentage of interest, an increase in turnover means, the formation of a single fund for developing science and technology, the formation of material incentive funds, etc. With all this, the functioning of the industrial sector on the basis of cost accounting principles cannot be ideal. This is related, first of all, to capital investments which cannot be planned in direct relationship to the volume of their own resources.

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The development of an industrial sector as a relatively independent structural link in a single national economic complex occurs in a system of complicated intereconomic relationships. Under such conditions, providing dynamic and proportional development of social production, optimizing the interindustrial relationships and realizing the complex target problems require centralized inter-industrial and regional redistribution of money by means of the financial-credit mechanism.

Taking into account various interests is of great importance for cost accounting relationships. "Economic relationships of each given society," noted F. Engels, are demonstrated primarily as interests."* V. I. Lenin related cost accounting questions organically to the observation of the unity of the general government, collective and personal interests. The combination of the interests of cost accounting enterprises and the general government interests -- is the most important principle of organizing management at the start of complete cost accounting. The complication in providing such a combination is related to the fact that nonantagonistic contradictions originate in the process of productive activity between the interests of enterprises and society as a whole. V. I. Lenin noted that changing government enterprises to cost accounting "in connection with the urgent necessity of increasing the productivity of labor, achieve the profitability of each government enterprise, in connection with unavoidable departmental interest and the exaggeration of departmental zeal, unavoidably originates a certain contradiction of interests..."** Such contradictions must be solved primarily by economic methods.

Inasmuch as a sold product is the measure of satisfying the need of society, the selling structure must be shaped on the basis of these requirements. Only in that way is it possible to aim the enterprise toward the optimal mode of operation and to high final results, and to react efficiently (over the feedback circuit) to changes in production and consumption conditions. The practice of using the indicator of the volume of sold products indicates that shortcomings inherent in gross production (effort to manufacture expensive products using a great amount of materials, violation of contract assortment and volume of delivery) are not eliminated in this case. At the same time, an "inertia" of profit to the consumer cost was demonstrated which was expressed in an effort to maximize profits and, sometimes, to the detriment of social requirements. Under the new conditions, the contract system becomes one of the core components of cost accounting relationships. The action of the economic laws on the level of the production link is demonstrated comprehensively in it. Strict observation of contract relationships satisfies the target functions of socialist production, insuring the output of products of a given

* K. Marx and F. Engels, Papers, vol. 18, p 271.

** V. I. Lenin. Complete Collection of Papers, Vol. 44, p 343.

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composition. The contract system, based on the goals of the five-year plan period in correspondence with the growing needs, provides society with the necessary material values and facilitates the successful functioning of a single national economic complex.

The necessity was noted at the 25th party congress of increasing the role of enterprises-consumers in forming production plans, using widely the system of orders and economic contracts. This question is given primary importance in the decree of the Central Committee of the party and the USSR Council of Ministers (July 1979). Contract relationships between enterprises and associations are aimed at the provision of the planned product requirements of society based on the primary economic law of socialism -- the law of systematic, proportional development of production. This is facilitated by the system of planned economic relationships among associations, enterprises and industrial sectors of the national economy directed toward achieving a balance in resources on the national economic scale. Thereby cost accounting principles obtain a stronger economic base with strong observance of the interests of producers and consumers. The enterprise is obligated to manufacture products of an assortment of a set quality given by the plan and to insure this delivery on a planned schedule. This is the basis of evaluating the cost accounting operation of the enterprise, its responsibility and its material interest. At the same time, the role of the consumer becomes greater in forming the order portfolio of the assortment of manufactured products, and the system of stimulating the output of new products is improved. This purpose will be facilitated by high priority allotment of material resources, equipment, capital investments, systems of credits and material incentives, additions to wholesale prices for stimulating the output of high quality products. The additional profit obtained as a result is used to increase the economic incentive funds. At the same time, in order to create additional stimuli for raising the quality of products and dropping outdated products, discounts were introduced on corresponding wholesale prices.

There are various kinds of financial penalties in observing contract discipline. It is planned to increase their efficiency.

From the position of cost accounting principles, economic incentive funds and the order of bonuses must be in direct relationship to the sum of the penalties paid and thus actually fit the harm caused. In this connection, the time for making claims and paying fines are shortened.

The strengthening of cost accounting relationships between suppliers and consumers will facilitate the role of credit levers. Until recently, there were cases where the supplier plant sent the product

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to the consumer, but the latter, not having proper financial sources available, did not pay the bill. As a result, the supplier, due to the fault of the consumer, was considered as not having fulfilled the plan (since the product was not paid for, the production cycle was not considered complete). The new, more efficient system of accounting will make it possible to eliminate the gap between the receipt of the goods and payments by the customer. For this purpose, the credit of the cost accounting enterprise is expanded considerably. Credit will be provided by the Gosbank for up to 60 days at 5% annual interest. The percentage increases when the indicated schedule is violated, which leads to a reduction in the material incentive fund for the customers.

Of great importance is the changeover in the 11th Five-Year Plan period to forming the economic incentive funds on stable norms, differentiated for the years of the five-year plan period. They will be planned according to norms in the percentage of the profits (estimated profits), and individual industrial sectors -- of the wage fund in the basic year of the five-year plan period.

A complex of measures was developed for a more efficient stimulation of the economic initiative of working collectives in accelerating the growth of the productivity of labor and a reduction in personnel turnover. In the 11th Five-Year Plan period, the size of economic incentive funds will be formed in accordance with stable norms based on improving quality indicators of the work of production associations differentiated for the years of the five-year plan period. For a considerable increase in the output of new products, as well as when fulfilling counterplans that exceed the tasks of the five-year plan period for the current year, larger amounts in economic incentive funds of production associations will be planned. And conversely -- when the tasks of the five-year plan are not fulfilled for fund-forming indicators, the norms for the incentive funds will be reduced.

Unlike the earlier existing practice, residues of unused incentive funds will be carried over to the following year and will not be removed. A new order was introduced to stimulate the combination of professions and to reduce the number of production workers. The saving in the wage fund is transferred to the material incentive fund. For combining professions and fulfilling the annual volume of work, workers are given additions of up to 50% to their rated wages; engineers and technicians for high skills -- up to 30%; and designers and technologists -- up to 50% within the limits of up to 1% of the wage fund of the production association (enterprise). A reduction in the material incentive fund is made when the number of planned workers is exceeded.

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The successful implementation of all these measures on stimulating the productivity of labor and increasing the efficiency of production is related to the sequential implementation of cost accounting principles starting with the bottom links. In this connection, the brigade form of organization and labor stimulation acquires great importance. It will become the basic form in the 11th Five-Year Plan period. As shown in practice, brigade cost accounting is more efficient in solving the problem of combining professions, the material and moral interests of the brigade members in fulfilling the plan increase; new possibilities for the development of socialist competition open up and the creative initiative of the working collectives increases. Correspondingly, the rights of cost accounting brigades in determining the size of wages and bonuses increase based on the increase in the productivity of labor and the personal contribution of each brigade member to the results of the work of the collective as a whole.

The brigade contract as a concrete form of organization of bottom-rank cost accounting provides premises that make it possible to match up the interests of society, collective and individual workers by means of economic methods. Cost accounting brigades are interested in adopting intense plans, using internal reserves and reducing production costs. On the level of the enterprise (association), brigade cost accounting leads to an increased interest in the final results when it is spread to all brigades, sections and shops without exception. This achieves efficient mutual relationship between the cost accounting mechanism and socialist competition inasmuch as cost accounting relationships are utilized comprehensively at all levels of planning, management and material incentive. The use of the Shchekin method which provides an increase in the productivity of labor without increasing the number of workers is responsive to such an approach. Stable plan tasks on the increase of the productivity of labor and calculation of the wage fund on the basis of norms per ruble of production play an important role in this. Under such conditions, cost accounting becomes more efficient since it provides for interesting each and everyone in the final results of production. To evaluate the real contribution of the cost accounting production of a collective, it is very important to change over to a system of planning and evaluation of the production activity of enterprises in accordance with the net output norm (NChP).

The experience of utilizing the NChP indicator experimentally in a number of ministries (USSR Ministry of Heavy Machinery, etc.) showed positive results compared to the gross, commercial and sold products. The advantages of the NChP indicator consist of, first, it reflects only that part of the products that was created by the labor of the given collective and is evaluated not by individual expenditures, but by established plan norms based on average industrial expenditures.

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The commercial product, however, besides the expenditure of labor of a given collective also reflects the cost of materials, complementing parts, semifinished products and the wear of fixed capital which are the result of labor by other collectives. Its use objectively stimulated the output of products using large amounts of material. At the same time, the evaluation of the efficiency of the cost accounting enterprise was distorted. Secondly, the new indicator makes possible a sounder measurement of the labor productivity of a cost accounting collective on the basis of the ratio of the created net output according to the norms to the number of workers. This provides additional stimuli to reduce the amount of labor and materials used in products and reduce production costs. This solves the problem of accelerating the increase in the productivity of labor efficiently compared to the increase in the average wages. Enterprises, having stable norms, are interested in saving labor and in a greater additional output. Thirdly, the NChP indicator stimulates a greater increase in profitability due to higher quality of the product and a reduction in its cost of production. The decree of the Central Committee of the party and the USSR Council of Ministers (July 1979) stressed that to increase the interest of production associations (enterprises) in the best utilization of production funds and saving material resources, it is necessary to determine profitability in processing sectors of industry in accordance with the kinds of products as a ratio of profit to production cost deducting the cost of raw materials, fuel, power, materials, semifinished products and complementing products. This achieves economically substantiated planning of the profitability of cost accounting enterprises according to their real contribution to the national income.

To strengthen the responsibility and accelerate the money turnover of enterprises, an order was established in which billing between customers and planning-research organizations would be made out in stages but for completed and accepted plans. In this connection, planning organizations are allotted their own turnover money with the right to use bank credits. When schedules for repaying credit loans are violated, higher percentage of deductions are taken from profits which causes a corresponding reduction in deductions for the economic incentive funds.

It is planned to complete the introduction of cost accounting principles between customers and contractors in construction. Only commercial construction products in the form of facilities ready for start-up, etc. will be billed. A possibility is provided to take care of intermediate expenditures related to incompleting construction-installation work by a credit system. In this case, when loan schedules are violated, high percentages are charged for the loans with a corresponding reduction in the financial resources of the construction organizations.

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A system of planned pricing is of great importance for the successful functioning of the cost accounting mechanism. Prices stimulate material production, regulate consumption and redistribute the national income. It is planned to improve pricing in all its forms. This will provide for the use of more stable cost indicators for the five-year plan period.

The existing wholesale prices are not a sufficient reflection of all those changes in industry after the reform of wholesale prices in 1967 (reevaluation of fixed capital, introduction of new norms for amortization deductions, achievements of scientific-technological progress, etc.). It is planned to establish periodic reviews of prices for the purpose of getting closer to the socially necessary expenditures of labor and providing economically substantiated levels of profitability for industrial sectors, enterprises and individual products.

Special attention is being given to using prices as norms of labor expenditure per unit of consumer cost which is associated closely with stimulating the quality and output of new products. This will prevent an increase in prices for new goods if their consumer properties are not improved at the same time. There will be clearer observance of cost accounting principles of incentives that involve a reduction in prices for new equipment per unit of its productivity.

Cost accounting principles are being gradually introduced in the sphere of scientific activity as a condition for stimulating scientific-technological progress. This is related to the fact that relationships between the scientific organization and the customer enterprise are implemented on the principle of purchase-sale of products of scientific labor (research and developments of a production nature), which has a cost and thus constitutes a basis for the price of the corresponding product. Under modern conditions, a special role in accelerating the scientific-technological progress and increasing the output of new products was acquired by the determination, in the contracts, of the final results of the scientific-technological work, its expected economic effect, schedules and stages of scientific developments, financing sources and system of material incentives. The decree of the Central Committee of the party and the USSR Council of Ministers (July 1979) specified that bonuses are to be paid for the actually obtained total effect of creating and introducing new equipment, while the bills -- for work fully completed and accepted by the customer.

In connection with the development of production associations and the gradual expansion of the cost accounting principles in industry, the problems of cost accounting financing of science and technology were posed in a new way. Practically, this was reflected in a gradual change of new equipment assimilation funds, scientific research work funds and money from the government budget by a single fund for the

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development of science and technology (YeFRNT).^{*} It is planned to create such a fund in all ministries and departments to accelerate scientific-technological progress and expand the output of new, highly efficient products. The fund is intended to finance scientific research, experimental design and technological work and to replace related higher costs during the first years of production of new products by deductions from planned profits in the percentage of the net norm output. This order, however, does not preclude financing especially important complex scientific work involving large expenditures from the government budget. Along with the standardization of sources of expenditures for science and technology, they are also used in direct relationship to the obtained economic effect based on the final results. The problem of correct planning of the YeFRNT becomes very important.

The YeFRNT will be formed by deductions from the planned profit on the basis of five-year plan indicators (distributed over the years) in percentage of net output, and in individual industrial sectors -- percentage of commercial output. Industrial ministries have the right, when necessary, to transfer a part of this fund to industrial associations, as well as large production and scientific-production associations.

The USSR Government Committee on Science and Technology, the USSR Gosplan, the USSR Gosstroy, the USSR Government Committee on Labor and Social Problems and the USSR Ministry of Finance jointly approved "Instructions on changing over industrial scientific research, planning-design, technological and planning-research organizations to the system of payments for fully completed and accepted work." The instructions specify a complex of measures for more efficient utilization of the cost accounting mechanism for stimulating the creation and introduction of new equipment on the basis of the contract-order. It fixes the entire volume of work, schedules, necessary materials, financing sources and the system of material incentive, taking into account the final results of the planned work and its effect on the national economy.

Reducing the gap in time between the investment of money and its repayment is of great importance in the efficient financing of new equipment. The USSR Gosbank and the USSR Stroybank are called upon to play a great role in this. Ministries and associations may obtain credit for paying for work financed by the YeFRNT fund, if the work is completed in less time than called for in the plan. The advantage of

^{*} This experiment was started at enterprises of the Ministry of the Electrical Equipment Industry and the Ministry of Heavy Machinery according to the decree of Central Committee of the party and the USSR Council of Ministers of 24 September 1968 "On measures for increasing the efficiency of scientific organizations and accelerating the use in the national economy of achievements of science and technology." Later, it was expanded to other ministries.

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the credit method for supplementing the YeFRNT is that it increases the responsibility of the associations for introducing and assimilating new equipment on the established schedule. This is facilitated by the order in loan repayment and interest payments in accordance with the effect on the profits obtained from its utilization.

It is expedient that expenditures of organizations before the planned time for the release of the work be covered by credit within the money freed at the customer due to the changeover to billing without intermediate payments. The increase in the percentage of interest to be paid for the loans will stimulate the efficient utilization of credit resources. Thus, if the planned time for releasing the product or the estimated costs are exceeded, higher interest will be deducted from the profit and if that is not sufficient -- from the production development fund.

Bank loans will be given for two years for highly efficient measures for the development of science and technology not specified in annual or five-year plans. The instructions determine the accounting system for expenditures for completed work and the order of billing for it. In 1980, it is planned to complete the changeover to cost accounting principles of work organization on creating, assimilating and introducing new equipment in accordance with contract-orders.

The measures outlined by the Central Committee of the party and the USSR Council of Ministers on improving further the economic mechanism assume comprehensive improvement of planning and managing of the national economy and on that basis, providing efficient cost accounting stimuli for more efficient functioning of socialist economics.

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PLANNING AND PLAN IMPLEMENTATION

BUNICH STRESSES NEED FOR ACCURATE PLAN INDICATORS, NORMS

Moscow VOPROSY EKONOMIKI in Russian No 2, Feb 80 pp 35-45

[Article by P. Bunich, corresponding member of the USSR Academy of Sciences: "Plan Indicators, Economic Norms and Rules"]

[Text] The goals of socialist society, which reflect the requirements of its economic laws, are realized through the elaboration and implementation of plans for the economic and social development of the country. These plans are implemented through a system of plan indicators, economic norms, and rules. Plan indicators are of a specific address character. Economic norms may be both unified and specific-address (individual) norms. The same holds true for rules.*

In conformity with the decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Enhancing the Effectiveness of Production and the Quality of the Work," the five-year plan directs industrial ministries, associations, and enterprises to ratify such specific-address plan indicators as the growth of net output, the production of basic types of products in physical terms, the increase in production of products in the highest quality category, the growth of labor productivity, the limit on the number of blue and white-collar workers, the activation of fixed capital, etc. The total number of these indicators, including the concretization of individual indicators under the heading "of which," is 23. One indicator combines targets that include several directives, e. g., basic targets relating to the implementation of scientific and technical programs, to the elaboration, assimilation and introduction of new, highly effective technological processes and types of products; indicators of the technical level of production and the most important types of output; plans for the protection of nature and the environment; plans for using by-products, secondary

*Strictly speaking, norms represent a particular case of rules that are characterized by both qualitative and quantitative constraints. Moreover, there are rules that regulate noneconomic or not only economic activity and rules that lack quantitative expression.

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materials, other resources, etc. Indicators of the annual plan include the realization of products, the production of commodities for children and certain other indicators. At the same time, they do not include a limit on capital investments.

Unified economic norms encompass equal prices for the same product, equal interest rates for the same type of loan granted *ceteris paribus* to various enterprises, unified wage systems, unified norms of amortization allowances, uniform sanctions for late deliveries of goods (in percent of the value of products not delivered on schedule), etc. Specific norms include norms of maximum allowable concentrations of noxious substances in effluents, etc.

Among the individual economic norms, we can name the norm of shared distribution of profit between society as a whole and the economic complex, norms governing the formation of economic incentive funds, withholdings for uniform funds for the development of science and technology, and fixed payments.* Subsidies, fringe benefits, etc., can be considered individual norms when they are expressed in the form of a relationship with the price of the product, with the rate of payments for capital, credit on interest, or another yardstick.

The mechanism for applying individual norms closely resembles the mechanism for using specific-address plan indicators. Therefore, individual norms are not characterized specially but are characterized on the whole together with plan indicators. Moreover, within the framework of the economic norms there is a tendency to increase the sphere of action of uniform norms -- national economic, branch, and group norms. Thus, norms established in 1977 for the economic effectiveness of the utilization of new technology, inventions and innovations in the national economy were established as uniform for the economy as a whole. The trend toward the unification of economic norms is intensified by measures of the aforementioned decree of the CPSU Central Committee and the USSR Council of Ministers, and by normative acts adopted to implement the decree. According to these decisions, wage fund benefits are reduced and as a result this normative payment will be more or less uniform for industry and construction (six percent). As a rule, branch norms of net output and wages will be introduced for each specific item. The need for uniform norms governing withholdings from the above-plan profits of industrial ministries (associations, enterprises) is determined.

*The redistribution of profits with the aid of fixed payments and subsidies is conditional upon the solution of the transport problem as a result of which the indicators of some enterprises are improved while the indicators of others enterprises deteriorate (given their general growth), by the need to take excessive income away from enterprises producing very scarce products and selling them for relatively high prices as a result of an insufficiently rational distribution of resources among various spheres of activity, by the application of unduly low prices in a number of branches and by other factors that require the state to render nonreturnable financial aid to the collectives of associations (enterprises), and by supplying certain enterprises with resources at extremely low prices or free of charge, which in the absence of fixed payments would increase the real effectiveness of their activity.

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Builders activating new production capacities ahead of schedule are now entitled to a certain percentage of the client's profit for the period by which construction time is shortened. When workers perform more than one job and when the established volume of work is performed by a smaller work force, it is authorized to use the saving of the wage fund compared with its normative or planned volume to increase the wage rates and salaries of workers at industrial enterprises to 50 percent and to introduce increases in salaries of engineers, technicians and especially foremen and white collar workers as well as of designers and technologists for higher qualifications to 30 and 50 percent of their salaries, respectively.

In our opinion, the establishment and observance of criteria for evaluating the activity of cost accounting collectives; the free borrowing of progressive knowhow; the regulation of the duration of the workday, workweek, and leave time; constraints on utilizing the labor of women and adolescents; safety engineering rules; rules governing the technical operation of machines; the behavior of people in production; hiring and firing; rewards and penalties; general rules of land ownership and land use; nature conservation; the obligatory filing of claims for breach of contract; the performance of other legal acts; accounting rules; foreign economic activity; monitoring functions, etc., should be classified under the heading of rules of behavior (as general rules since specific-address rules, like specific-address norms coincide with plan indicators in the mechanism of their action).

Specific-address indicators, general norms, and general rules are employed not only under socialism but under capitalism as well. When a capitalist state orders a given product from a private firm, it specifies its parameters and date of delivery, allocates capital resources, and uses other specific-address management techniques. The general norms and rules under capitalism encompass taxation, the policy on duties, amortization policy, the system of interest on loans, etc. But unlike socialism, under capitalism the specific-address targets and uniform norms are (1) subordinate to the interests of private capital rather than public interests; (2) are chiefly used at the microlevel and at the macrolevel are only supplemental to the spontaneous mechanism; and 3) incorporate a relatively narrow range of indicators. Public ownership alone are the basis of the broad application of the entire system of indicators and norms. This point was indicated by V. I. Lenin in his day. "Nationalization," he wrote, "is the transfer of all the land to the ownership of the state. State ownership means that the state is entitled to draw the rent from the land and to lay down general rules governing the possession and use of the land for the whole country."*

The existence of various spheres of action of specific-address plan indicators under socialism on the one hand and the existence of uniform norms and rules on the other are occasioned by the fact that in a number of instances the national economic approach can be realized only through individual targets and sometimes general norms and rules are sufficient for this purpose.

*V. I. Lenin, "Complete Collected Works" [Polnoye sobraniye sochineniy], Vol 16, p 316.

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Specific-address assignments to enterprises, associations and ministries define the place of each of them in production, in supply, in centralized capital investments, and in other aspects of activity from the standpoint of the primacy of the national economic approach which cannot be realized otherwise than with the help of the directive individual approach. Unified norms and rules regulate the area of economic activity of production collectives in which group and public interests coincide.

The application of unified norms and rules significantly expands the rights of the collectives. The norms fix the terms of issuance of resources and not their direct quantity. Thus, collectives are assigned norms governing the effectiveness of capital investments but not their magnitude (the reference is to noncentralized investments); the interest but not the sum of each type of credit is established; prices are ratified but not the scale of production of the detailed product mix (excepting the mix that is determined on a centralized basis). To be sure, a close relationship exists between the conditions under which resources are issued and the quantitative requirement for them. Let us say that the lower the normative effectiveness of capital investments, the greater is the investment demand of production collectives; the higher the prices on output, the greater is the supply. But the establishment of terms for obtaining resources rather than the establishment of their volume leaves collectives more opportunity for the display of their initiative.* At the same time, the material and moral responsibility of collectives is increased. Henceforth this responsibility will extend not only to the fulfillment of centrally established targets but also to the results of all independent decisions. The logic is as follows: the greater the rights, the greater the obligations. V. V. Kuybyshev wrote: "The existence of rights entails responsibility." [V. V. Kuybyshev, "Selected Works" [Izbrannyye proizvedeniya]. Politizdat, 1958, p 102].

When the optimum physical and value proportions have been found, the central question boils down to assigning production collectives the necessary "set" of specific-address targets and to securing their realization. When this "set" is too detailed and economic activity is excessively regulated, the decisions that are made lose their effectiveness and precision to a considerable degree. But when, to the contrary, the number of plan indicators is artificially limited, there are difficulties in observing planned proportions, which are accompanied by negative consequences.

The optimal system of "indicators" of economic behavior is in the formative stage. General norms have not yet assumed their proper place due to the absence of (1) certain objective conditions; and (2) insufficient scientific

*We note that just as soon as general norms and rules presuppose the adoption of independent decisions on their basis, they act in the capacity of one of the main prerequisites to the development of socialist enterprise. At the same time, socialist enterprise is not confined solely to the cost-accounting independence of collectives on the basis of the general rules. It encompasses the rights of collectives in all areas of activity: in the fulfillment of specific-address assignments in the most economical way, in the drafting of plans, in socialist competition, in borrowing knowhow, etc.

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attention to the problem. General norms have not yet assumed their proper place owing to the lack of (1) certain objective conditions; and (2) sufficient scientific treatment of the problem. In connection with certain imperfections in prices, the scarcity of a number of types of products, historical differences in the technical level of enterprises, and the acknowledged weakness of cost-accounting "stabilizers" of fluctuations of incomes and expenditures in various periods of time, there is pronounced and unsubstantiated "scatter" in the profits of individual enterprises. Hence, there is less opportunity to apply uniform incentive methods and they are in part replaced by individual methods. Let us examine the most important specific-address targets in greater detail.

The modern economic management mechanism includes the assignment of centralized production targets to enterprises (associations) as one of the instruments of management. The need for such targets is necessitated by two types of factors: constant factors and temporary factors characteristic of the given moment. Permanent factors include the necessity of proper accounting of national economic interests and national economic information which is associated with decision-making exclusively at the highest level of management. In order to plan the basic nomenclature positions of individual enterprises (associations), we must be guided by the primacy of the interests of society, must have information on the programs of other economic units of the given branch, on the plans of collectives engaged in the production of substitutable products, on the monetary resources of client enterprises, on the terms of distribution of transport services among numerous clients, etc. Essentially, only the central planning organs can take such an approach and have such materials. Therefore, the need to resolve one or another local problem leads to the consistent expansion of the planning arsenal. The Hegelian theorem which holds that in any sufficiently broad class of concepts there are questions that can only be answered by expanding the class of concepts proper applies both to economics and to mathematics. At the same time, the new class of concepts develops its "own" questions.

The imperfection of a number of existing prices, which hinders their active utilization as economic instruments for orienting collectives toward the production of the necessary product mix and thereby expands the sphere of centralized concrete management in nomenclature planning, is a temporary factor which dictates the expansion of centralized nomenclature planning. Constant factors require nomenclature planning in the distant future. But as regards the temporary factors, as prices are improved their influence on the expansion of nomenclature planning will diminish.

Annual directive production targets are established for the total sales volume (in money terms) and for the most important nomenclature (in physical or conditionally physical indicators). The gradual introduction of the indicator of the sales volume in place of the gross output indicator since 1965 has had a positive significance. It has helped to focus the attention of producers on the needs of the client, on the study of requirements, on the development of production in the interest of satisfying these requirements and has made the sales system more of a "warning" system.

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The evaluation of the performance of enterprises on the basis of the given indicator has increased their interest in receiving payment for delivered output and in reducing marketing time. However, the growth of the sales volume has frequently been achieved, e. g., by using costly raw materials and naturally this is not in the interest of society. In an effort to increase their sales volume, some enterprises have tried to take the easy way: producing the most profitable items to the detriment of the rest of the product mix.

As a result of flaws detected in the sales volume indicator, modifications were introduced into the system underlying its use. Thus, this indicator was adduced from evaluative indicators at electric power stations in 1974 and at gas industry enterprises in 1975. Some enterprises proposed that the same be done in all branches. But the sales indicator is not fraught with negative consequences under all conditions. If, for example, prices do not mechanically "legalize" excessive expenditures (which is sometimes the case), there will be no undue increase in sales volume through the use of costly raw materials and through other avenues. Under the existing system of sanctions for the violation of plan and contract obligations regarding the production of relatively low-profit goods by production collectives, the sales volume indicator also ceases to be distorted by such a factor as the violation of the product mix indicated in the plan or contract. Accordingly, the improvement of the economic mechanism should gradually create more and more prerequisites for the expression of the actual results of production by the given indicator.

Since the difference between results and expenditures is taken into account in the calculation of effectiveness, the impression is created that the sales volume indicator has "done" its job and does not require further study. However, this is not the case. The given indicator is needed for the economic mechanism of management not only in the capacity of one of the two basic factors in the determination of effectiveness but also independently as such irrespective of the correlation between results and expenditures. Only thanks to this can we determine the place of collectives in production and in attaining general planned proportions. When the collectives know the required sales volume, they will be oriented toward the corresponding scale of contractual activity (excluding the most important product mix from this volume). If it were not for the sales volume indicator, the state would have to assign a detailed product mix to each enterprise. This would be an extremely cumbersome, time-consuming and costly process and would violate the principle of democratic centralism. It is not by chance that production associations of the USSR Ministry of Light Industry, which are authorized to establish their own volume of production and sale of products to the population in physical terms (excluding textiles and children's goods), are simultaneously assigned a limit in the form of the volume of goods delivered in retail prices.*

*See the decree of the CPSU Central Committee and the USSR Council of Ministers "On Certain Measures for Improving the Planning and Economic Stimulation of Production in Light Industry" [O nekotorykh merakh po sovershenstvovaniyu planirovaniya i ekonomicheskogo stimulirovaniya proizvodstva tovarov legkoy promyshlennosti] (IZVESTIYA, 16 May 1974, p 3).

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The decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Increasing the Influence of the Economic Mechanism on Enhancing the Production Efficiency and the Quality of Work" defines as a general principle for all branches of industry the ratification of the sales volume indicator without which it is impossible to evaluate the fulfillment of delivery commitments in accordance with contracts and work-orders on the production of goods for export. When comparison of the sum of contractual deliveries with the sales volume plan reveals the underfulfillment or overfulfillment of the plan targets (when so required by the client), the incentive funds are reduced or increased accordingly.*

However, here we encounter certain questions that require solution. This applies to cases in which, for example, the underfulfillment of contracts has already once been reflected in fines paid and in reduced profits and their overfulfillment has been expressed in the increase of the given indicator. There is also another problem. Let us assume that the contractual plan is underfulfilled owing to disruptions in the delivery of raw materials. The resulting fines raise the enterprise's profits to the normal level, but the sales volume [plan] remains unfulfilled and hence the collective suffers as a result of the nonfulfillment of the contracts even though the suppliers are to blame. If the sales indicator had served only for concluding the contracts and for analyzing their fulfillment, this would not have happened.

The question of the content of the centralized (most important, basic) product mix also requires clarification. In our opinion, it must first and foremost include aggregates of products that must be assigned centrally to the various localities. It also includes the relatively deaggregated main types of items (fuel, metal, machine tools, bread, etc.). What is more, a centralized determination is made of the nomenclature of the most important objects of new technology (including defense technology), strategic raw materials, supplies, and products that are important for forming the foreign currency income of the state and that are earmarked for export in line with international agreements between the USSR and other countries. Directive-type planning of the product mix ensures the production of goods that are needed by society -- goods whose production is relatively or totally unprofitable.

Aggregation in turn requires the solution of a number of problems on the optimal boundaries of the "aggregate" applicable to various levels of

*Associations (enterprises) in a number of branches receive a general assignment regarding volume of activity in the form of a specified territorial service zone assigned to them. Thus, Glavmosavtotrans has the obligation of satisfying all needs of clients situated in Moscow. Under these conditions, the special volume indicator -- ton-kilometers, incomes, etc. -- is not in need of directive-type planning. It is needed as an accounting indicator in the planning of material resources, wages, etc.

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management, on the methods of reducing heterogeneous types of products in a given group to a "common denominator."

An indispensable condition to the correct planning of all production indicators is their balanced coordination with available production capacities, and with the growth of the latter due to capital investment. When the output of a given enterprise is included in national economic proportions, the available capacities ensuring this output are also essentially encompassed by centralized planning. Accordingly, the specific aspects of their use can be planned independently by the various localities. This concerns, in particular, the timely revision of the potential size of existing capacities with due regard to the activation of new capital, the retirement of old capital, the modernization of production, the application of higher technical and economic norms governing the return on equipment, the elimination of the "bottlenecks" that impede the growth of the effectiveness of production, the increase in the shift coefficient, and regime time as a whole.

The planning of the utilization of capacities and the increasing of their utilization are the prerogative of the collectives proper since this utilization is indirectly predetermined by output targets. The growth of capacities and new construction require a different approach. One part of the newly activated capacities has local significance and does not alter the interbranch proportions and the territorial structure of production. With the acceleration of scientific and technical progress, the replacement of obsolete fixed capital, the increase in equipment operating speed and its more frequent renewal, the more and more rapid replacement of products, the creation of large cost-accounting associations that push back the frontiers of implementation of "internal measures," and by virtue of the action of other factors, the share of these capacities in the overall growth of investments tends to rise. The growth of the capacities of a local character can be realized on the basis of the criteria of individual enterprises (associations) and their available information. Accordingly, production collectives are beforehand assigned averaged resources for this type of investment. This relates to production development funds and to the possibility of obtaining credit for noncentralized investments.*

Another part of the increase in production capacities changes branch and territorial proportions. The reference is to new enterprises, to large-scale reconstruction, to the significant expansion of existing production facilities, and to strategic measures whose effectiveness can be correctly determined only from the standpoint of society as a whole. The resources for such growth are not assigned a priori: they are assigned only when

*The entitlement of collectives to have their own sources of funds for small capital investments is combined with the incorporation of these investments in the national economic plan of contracting organizations and of material-technical and labor supply. In this sense, the given capital investments are part of the general limits on state capital investments and construction-installation work ratified by an economic organ.

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society deems it necessary in each specific instance. Therefore, the targets centrally assigned to industrial ministries, associations, and enterprises include targets based on centralized capital investments. They can be determined if production development funds are subtracted from the general limit on state capital investments.*

Production plans also require substantiation from the standpoint of the availability of raw material, energy, and other resources.** This factor directly determines the type and quantity of products that must be produced and where they must be produced. Therefore, such substantiation is combined with calculations of production by the iterative form. The final decision on production is made when calculations of possible supply and sales plans confirm the effectiveness of the given project.

In planning today, more and more capacity utilization problems are solved with regard to the transport factor, i. e., in the form of a unified production supply problem. But in a number of instances there is still a gap between the planning of production and the choice of supply schemes, which hinders the adoption of optimal solutions. It should also be noted that supply today is extremely capitalized and detailed. This sometimes reduces the possibility of the enterprise (association) to plan its own product mix in detail since the product mix is predetermined by the rigid allocation of resources.

We believe that the time has come to consider the transport factor in all instances and in all places in the compilation of production plans. In such a case, material-technical supply plans will become an integral part of the

*As we know, it has been decided to assign capital investments in the form of an indicator-limit. Previously, capital investment targets had been established in the form of a kind of evaluative indicator, the nonfulfillment of which was viewed as a negative feature. Collectives were accordingly oriented toward the obligatory expenditure of all allocated funds. Now that an indicator-limit has been introduced for capital investments, the economy of resources in comparison with the indicator-limit is permissible and desirable. The indicator-limit is a resource indicator rather than an evaluative indicator.

**It seems expedient to extend the limit principle of planning to the supplying of enterprises with raw materials, supplies, fuel, power, etc., and also to those resources that serve for the financing of imports of material elements of production. It would be proper to correct the limit on expenditures on imports, when such a limit is assigned to production facilities working for export, depending on the fulfillment of the export program (upward in the event of its overfulfillment and downward in the event of its underfulfillment). Production units, in particular, of construction-installation production associations, are assigned limits on material resources by the associations.

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national economic plan, will be better substantiated, and will be more successfully utilized in the economy. On the basis of such plans, the central supply organs will be able to assign suppliers to clients (for a given product mix). The next stage will be the conclusion of direct agreements increasing the flexibility and maneuverability of supply. It is expedient to acquire some means of production (gasoline, machine oils, mass construction materials, tools, instruments, etc.) in free wholesale trade. There is already positive experience in this kind of trade. It has been found that the changeover to the free sale of some means of production has brought about a significant reduction of the requirement for them in comparison with their distribution on a funded basis and with the system of advance orders filed with the supplier. The development of commission trade in means of production no longer needed by some enterprises also merits attention.

A number of problems arise in connection with the generation of general norms and rules. Thus, it was noted above that normative wages per product will be uniformly independent of the manufacturing enterprise. However, between enterprises there are objective differences in equipment, technology, scales of production, etc., that are beyond their control and it is hardly possible to ignore these differences in the norming of wages. Therefore it is necessary to make recommendations on the kind of differences that should be eliminated under given conditions in the planning of wages and on the differences that should be imputed to the collectives. It is also important to establish the effective period of the presently eliminated factors if in the future they include those for which the collectives themselves are responsible. In a word, it is essential to devise a transitional strategy for paying a uniform wage per product.

Numerous questions also relate to the establishment of interest on credit. First of all, this interest is quite low especially for long-term credit. Thus, 0.5 percent annual interest is charged for loans used as centralized investments in industry. The interest paid on credit by industry for unplanned measures and for overcoming financial difficulties resulting from omissions in the work is too low.

Interest on credit must be coordinated with the correlated influence of credit-financed measures to increase the productivity of social labor and to increase profits under normal conditions. If credit has helped to eliminate a bottleneck and has produced a "supereffect," this result cannot be entirely transformed into interest. In the overall effect, it is important to separate from the credit-financed measure the part that constitutes interest and the part that is the income of the cost-accounting collective. Here there is no natural measure and everything depends on the correlation of supply and demand for bank loans.

Payments for capital must also be coordinated with interest on credit. At the present time, payments for capital, for example, in the in Hungary and Poland (in organizations that

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voluntarily made the conversion to the new system of management in 1973-1979)* amounted to 5 percent of the residual value of fixed capital; in the Czechoslovakian CSSR-- 5 percent and in the GDR -- 6 percent of the initial value of fixed capital.**

In our opinion, special interest should be introduced for the money of economic units on deposit in banks, including interest on time deposits (deposit interest), in order to stimulate the investment of resources of enterprises (associations) in facilities that ensure the high effectiveness of production, to strengthen cost-accounting principles in bank activity, and to encourage production collectives to place funds at the disposal of society for an extended period of time. At the present time, only kolkhozes receive 0.5 percent annual interest on funds on deposit in the bank. Hungary the bank pays between 6 and 8 percent annual interest (depending on the time period of the deposit) on time deposits of state enterprises; in Poland--3-5 percent; and in the Czechoslovakian CSSR-- 1.5-2.5 percent. Funds on deposit in current accounts earn 1 percent interest in the GDR and 1.5 percent interest in the Socialist Republic of Romania.***

Let us now examine the question of rent-type relations. Fifteen years before the October Revolution, V. I. Lenin noted that the nationalization of land eliminates only absolute rent but cannot eliminate differential rent based on fertility and location.**** In the process of improvement of the economic mechanism, starting in 1965 rent payments were instituted in the oil and gas extracting industry and in certain other branches. An important step was thus taken on the road to developing rent-type relations. However, the number of branches in which these relations exist is quite small. Rent payments are not applied in the extraction of solid minerals (with the possible exception of asbestos), in the production of electric and thermal power, in fisheries, nor are rent payments exacted for convenient enterprise sites that reduce their construction costs. However, in all these instances there is an objective basis for rent relations. In his analysis of rent, K. Marx wrote: "Wherever the forces of nature can be monopolized and wherever they bring an additional profit to the industrialist applying them -- whether they take the form of a waterfall, a rich mine, fish-filled waters, or a well-situated building site -- the person who by virtue of his title to part of the land is acknowledged as the owner of these objects

*In Poland, the payments are made only on fixed production capital.

**For the sake of comparison, payments for capital and interest on credit must be reduced to the same base. If we take the initial value of facilities as the base, payments for capital in Hungary and Poland are roughly equal to 10 percent.

***See D. D. Butakov, "Credit and Intensification of Production in CEMA Countries" [Kredit i intensifikatsiya proizvodstva v stranakh SEV]. Izdatel'stvo Finansy, 1976, p 41.

****See V. I. Lenin, "Polnoye sobraniye sochineniy," [Vol. 16, pp 273-275.

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of nature realizes this surplus profit from his functioning capital in the form of rent."*

The economic valuation of land in the basic agricultural zones of the nation must be completed between 1977 and 1980.** It will be taken into account in the planning of the construction of enterprises. Two questions arise in this regard. First, at the present time the valuation of land that is taken out of agricultural circulation takes into account only expenditures on the development of an area of equal size but does not reflect higher production costs in the new land. Such valuation is far from complete. Second, the land valuation has the most consistent influence on economic activity only when it is an integral part of real cost accounting relations as well.

At present, rent payments are based on output volume rather than on utilized resources.*** For this reason, they do not stimulate the application of the most nature-saving technologies and do not motivate production collectives to extract all of the basic types of useful minerals (for example, the oil recovery factor in most oil fields is less than 0.5****; on the average, between 20 and 25 percent of the surveyed resources are left in the ground). All the more so, these payments do not encourage the extraction of by-products.

In some spheres, the attempt is made to base rent on location. Thus, the buyers' net prices eliminate the influence of the objective transport factor on the results of economic management. Between 1970 and 1973, all material-technical resources are sold to kolkhozes and sovkhoses for the buyers' net prices. The incomes of the producers are differentiated at the same time. The producers' net prices, on the other hand, differentiate the buyers' [users'] incomes. In any of these cases, the equalization of rent is not comprehensive. There is especially insufficient treatment of the question of rent occasioned by additional investments and technical progress.

*K. Marx and F. Engel's, "Sochineniya" [Works], Vol 25, Part II, p 334.

**The valuation of land must be specifically an economic (monetary) rather than a point valuation since it could not otherwise be compared with monetary outlays on other natural resources (material resources, power resources, other resources of the biosphere).

***The dependence of expenditures on resources has found practical realization in the calculation of rates of payments for worked mineral deposits in the mining branches of industry. But these payments serve for the compensation of expenditures of geological prospecting organizations and not for the equalization of objective differences in profit due to rent relations.

****See EKONOMICHESKAYA GAZETA, No 11, 1974, p. 7.

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Other general economic norms are also in need of considerable improvement. Let us mention prices as an example. In the aspect of the given topic, we must study the question of using prices in the capacity of limits permitting their modification downward. This requires new approaches to suppliers' entries of deliveries sold for lower prices, of guaranteed payments to the state budget, and changes in buyers' payments.

In conclusion, let us discuss one more question. Specific-address assignments are sometimes identified with administrative methods of management while general norms are identified with economic methods of management. However, it would seem that the content of both methods is economic since they are equally directed toward the realization of economic relations. They are realized in obligatory (administrative) form.

The question of direct and indirect methods*, which are frequently equated with the first demarcation, is associated with the question of specific-address and general indicators, norms and rules as corresponding methods of management. Thus, specific-address assignments are sometimes called direct management methods while general norms and rules are called indirect management methods. It is difficult to agree with such a definition if only because subsidies are of a specific-address nature but their influence on the economy is indirect rather than direct.**

*Indirect methods include the orientation of collectives toward the production of the necessary products with the aid of prices, interest policy, subsidies, etc.

**Some economists understand direct methods to mean nonequivalent relations between the state and cost-accounting collectives as well and construe reciprocal equivalent relations between enterprises as indirect. According to this approach, the centralized plan is a direct, nonequivalent, nonmarket form of relationship. The indirect form, on the other hand, is essentially recognized in the plan implementation stage in which the correspondence of the product to constraints on requirement and resources is manifested. But a contradiction arises when the adjustments are considered equivalent relations while the decisive targets of the plan are considered nonequivalent when the market is considered in the mundane sense of a mediator of physical exchange and is not considered in the planned definition of the principal requirements and resources. It would seem that payments for capital, interest on credit, rent payments, and other current forms of payments to the benefit of society confirm the existence of equivalence in the planned inclusion of production links in the process of social management. The conversion of enterprises to new forms of payment for the services of society as a whole, in particular, to special contributions to social consumption funds is also practicable. Socialist enterprises and the state are not different owners. Under socialism there is only one owner: society in the person of the state (if we ignore the cooperative form of ownership). But the experience gained in the conversion of branch ministries to cost-accounting work methods shows that vertical relations contain remunerative elements.

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The methods used in management are sometimes divided into economic, administrative, organizational, and ideological. It seems to us that such a division is not entirely accurate. Some administrative decisions indeed do not correspond to economic considerations. But they do correspond to other criteria: social, defensive, etc. Such a classification of management methods is based on the classification of management activities on the basis of efforts directed toward the attainment of an economic or other effect. The methods of management may accordingly be economic or can be directed toward the attainment of noneconomic types of effects.

But as regards organizational methods, they are not the third type of methods out of the four methods named but are a general management principle that is contrasted with the lack of organization and entropy.

Ideological methods are also on one plane with economic and noneconomic methods. They belong to the group of management methods that are involved in attracting people to work, in influencing their interests, and in influencing the motivations behind their activity. From the standpoint of motivation, the ideological group also includes the methods of material and moral stimulation and the inculcation of the working people with the need to work (which makes this method a kind of motivation). Among the methods that are generated by material incentive, some are occasioned by cost-accounting interests while others are found in non-cost-accounting systems and spheres, e. g., in basic science (at the same time, material incentive assumes other forms).

The optimization of management methods in general and of specific-address targets and general norms and rules in particular; and the improvement of their definition in close relationship with the national economic plan are intended to improve the economic mechanism underlying the management of the socialist economy.

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REGIONAL DEVELOPMENT

TARGETED-PROGRAM APPROACH TO REGIONAL PLANNING URGED

Leningrad IZVESTIYA VSESOYUZNOGO GEOGRAFICHESKOGO OBSHCHESTVA in Russian
No 1, Jan-Feb 80 pp 11-17

[Article by A. I. Chistobayev and Yu. N. Bazhenov: "A Targeted-Program
Approach in Territorial Research: Necessity and Areas of Use"]

[Text] The stage of developed socialism is characterized by the rapid growth of the production scale, by a qualitative change in the scientific and technical potential of society, and by a strengthening of the ties between the national economic sectors as well as between the Union republics and the economic regions. Under these conditions, ever greater urgency is assumed by the questions of improving planning and a qualitative improvement in the preplanning scientific research, including geographic. An improvement in planning and a bettering of the economic mechanism to a great degree depend upon how fully in the planning work use is made of the principles of a systems approach to the object of research, and the results of scientific-technical and socioeconomic forecasting which is the basic element in the preplanning scientific research.

One of the specific manifestations of the use of the systems approach in solving major social and national economic problems and in managing society as a whole, the sectors and the territorial economic objects is targeted program planning, or more precisely the targeted-program approach in economic and social planning. This makes it possible to view the national economy or the subsystems comprising it (the intersectorial and territorial production complexes) from the viewpoint of the aims of their development, to more soundly link the achieving of these aims with the availability of resources, and to disclose the development problems and the ways of resolving them.

The Decree of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1979 "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality" confronted the USSR Gosplan with the task of "raising to a qualitatively new level the content of planning on the basis of strengthening the role of the long-range plans, widely employing the targeted-program method, and

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introducing a system of scientifically sound technical and economic standards and rates" ([²], pp 8-9).

The unique methodological elements of the targeted-program planning--the concept of functional, object, trajectory and point aims, the ranking of aims, the elaboration of a tree of goals, the isolating of problem situations, the setting up of targeted integrated programs, calculations based on normative indicators, and so forth--establish it as the basic research method, and its theoretical achievements are finding ever broader application in various areas of scientific and practical activities.¹

In the economic and sociogeographic literature, a good deal of attention has been given to the questions of using the targeted-program approach in scientific-economic and social research [⁴⁻¹¹]. Nevertheless, many questions of a theoretical and applied nature still remain unresolved. Among them are: the formation of socioeconomic development aims; the isolating of program problems, the comparison of the programs and the selection of the most preferential of them, and the incorporating of the programs in the economic and social development plans. The solving of these and a number of other aspects of targeted-program planning is urgent both for the entire national economy as well as for individual territorial objects such as the Union republics and the economic and administrative regions.

In territorial research, the targeted-program approach is essential in solving involved interdisciplinary questions such as the elaboration of a regional breakdown for the general plans for the development and placement of the nation's productive forces over a long-term period, and the elaboration of specific comprehensive programs on a territorial breakdown. But the methods of targeted-program planning are of particularly great significance in working out the overall concepts of the long-term territorial plans which define the strategic aims of economic and social development for the objects of territorial planning over the long run.

The complex of goals in the territorial plans (like the national economic ones) operates in the form of a range of demands in which both the primary and secondary, both the individual and the collective and institutional needs and interests intertwine and should be reconciled. This complex can be represented in the form of a tree of goals, that is, a related graph which expresses their relationship and subordination ([⁶], p 62). On the one hand, it concretizes the development goals of society, and on the other, a complex of "intrinsic" development goals of the republics and economic regions is worked out over the long run.

¹Let us point out that the targeted-program approach, in our opinion, can and should be more widely used not only in socioeconomic geography, but also generally in the other geographical sciences in investigating complex territorial systems.

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The constructing of a tree of goals which would link together the complicated and continuously developing subsystems of the national economy (the Union republics and the economic regions of various taxonomic ranks) which have their "own" complicated development goals, as well as the resources which ensure the achieving of these goals, makes it possible to directly link the entire complex of goals with the means of achieving it. The tree of goals reflects the relationships of the specific aims of the various sectors and spheres of the regional economy as well as the relationships of the aims of the Union republics and the economic regions with the development aims of the national economy.

At present the methodology of working out the tree of development goals for the territorial subsystems of the national economy is still very primitive. The reason for this is that the present structure of national economic management gives little consideration to the development interests of a territory. In working out the tree of goals of national economic development, one isolates the national (statewide) goals, the goals of national economic development, and goals of the ministries and departments ([¹⁰], p 35). In this form the tree of goals imitates the existing national economic management structure and does not consider the development goals of the objects of territorial planning. Since the development goals of the sectors do not always coincide with the development goals of the republics and regions, the conditions arise for the manifestation of disproportions in sectorial and territorial development. Under these conditions it becomes essential to have the parallel elaboration of the tree of goals following the scheme: national economic goals, development goals of the Union republics, economic regions and major territorial-production complexes, and goals of the ministries and departments. Such a scheme of targeted-planning stems directly from the tasks of targeted-program planning which is aimed at bringing out and disclosing the most important problems of an intersectorial and inter-regional nature. Obviously one cannot help but agree with A. P. Polezhayev that the starting point for the targeted program planning is the satisfying of definite needs of the national economy or society as a whole, and not the individual sectors, ministries and departments, and that the basic task of targeted program planning is to achieve a definite (set) goal, and not in the development of the individual sectors ([⁹], p 84).

The most general development aims of the regions are determined by the functions of the regions in the territorial division of labor in the USSR. However, since in working out the tree of goals there are not always clearly defined territorial development goals on a higher level of planning, in particular for the long run, the formulation of the apex of the tree of goals in a territorial breakdown represents a substantial methodological difficulty. For this reason, in the process of the preplanning regional research, it is essential to determine the apex of the tree of goals proceeding from the general directions of the long-range development of the country (formulated in the directive program documents) considering the results of the territorial analytical forecast research. In considering that each economic region has its own characteristic development problems caused by the specific features of the natural conditions, by the availability of

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resources, by historical and national traditions, by the level of socioeconomic development and by other factors, it is hardly possible to formulate a uniform apex of the tree of goals for all regions. In truth, in the literature there are attempts to formulate standard development goals of a region independently of the specific conditions. Thus, in the opinion of V. I. Yakovleva, the apex of a regional tree of goals should express the goal "comprehensive development of the region" ([¹¹], p 189). In principle one cannot fully deny the possibility of such a formulation of the apex of the tree of development goals for a region, however, in our opinion, it cannot be the sole and main goal of development for the economic regions.

Obviously N. T. Agafonov is right in writing: "Comprehensiveness is caused primarily by the specialization of a region and is a means for raising its economic efficiency. For precisely this reason the comprehensive development of a regional economy cannot be an end in itself. Comprehensive development of the regions is necessary not for its own sake, but only to the degree that it provides for achieving the greatest economic effect and the planable specialization of the region. Hence all the still frequent demands for the locating of various types of production in one or another region for achieving comprehensiveness of the economy are incorrect" ([³], p 113). For example, in actuality in the newly developed regions, in particular in Western Siberia, the fundamental goal of long-range development is the tapping of its natural resources, and the comprehensive development of the economy is one of the supporting aims for the efficient development of the natural resources and for raising the level of the socioeconomic development in this region.

At the present stage in the development of the USSR economy, the tasks of seeking out additional reserves in each economic region for the intensification of production are assuming ever greater significance. In this context, in constructing the tree of goals it is important to provide for the effectiveness of all (economic and social) reproduction functions of a region, that is, to ensure the reproduction of the natural, labor and material resources. From these positions, the strategic goal of long-range development can be formulated as the achieving of more perfect proportions of reproduction, and within this overall goal we can isolate the subgoals of improving the reproduction characteristics of the population and the labor resources, improving the reproduction parameters of the natural resources, the achieving of optimum conditions for the state of the environment, and improving the interregional ties. In considering that at present in the major economic regions of the USSR there are no management bodies, in the proposed variation for the upper level of the tree of goals, we have not incorporated such subgoals as achieving a more advanced management structure for the region, as well as the subgoals which involve the distribution of financial resources. At the same time, in the Union republics as well as in changing the functions of the economic regions in the management system of territorial development for the national economy, it is advisable to incorporate the objects of territorial planning and these subgoals in the tree of goals.

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It must be stressed that in its structure the tree of goals for the development of the territorial national economic subsystems should conform to that problem goal which the researcher has set as the main one which determines all subsequent development. Consequently, the very tree of goals is constructed for each specific examined problem. For example, the logic of the structurization of such complex territorial problems as improving production efficiency and evening out the levels of the socioeconomic development of economic regions is different. While for the first problem, such goals as improving the sectorial structure of the created net product and the rational utilization of resources can be accepted as the upper level of structurization, for the second it is an improving in the distribution of consumption funds over the territory of the region, and improving the ratios in the development rates of the sectors in the production and nonproduction sphere. At the same time it is quite possible that in the process of further structurization, the individual branches of the tree of goals of these problems can intersect with one another, and this fact cannot be viewed as a drawback of the approach, as it makes it possible to view the achieving of one or another goal from different viewpoints.

Another important area related to the use of the methods of targeted program planning is the introduction of the planning of specific comprehensive programs into practice. As was pointed out at the 25th CPSU Congress, "the appearance of individual regions to an ever greater degree will be determined by the implementation of major national economic programs and by the creation of territorial-industrial complexes" ([¹], p 23).

This thesis has been reinforced by the Decree of the CPSU Central Committee and USSR Council of Ministers "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality." This directly draws attention to the necessity "of working out specific comprehensive scientific-technical, economic and social programs as well as programs for the development of individual regions and territorial-production complexes as the most important component of the state long-range economic and social development plant, providing the necessary coordination of these programs with the appropriate sections of the plan and with the material and financial resources" ([²], p 13).

The urgency of working out and using the specific comprehensive programs in planning practices has been emphasized in the scientific literature. Thus, V. Yu. Budavey has pointed to the advisability of working out long-range development programs for the production sectors in a number of economic regions ([⁷], p 64). M. B. Mazonova has drawn attention to the necessity of working out specific comprehensive programs for the interregional proportions of the national economy ([⁸], p 30). In the opinion of V. A. Vasilenko, the active appearance of regional programs shows a sort of negation of the existing management system ([⁴], p 145).

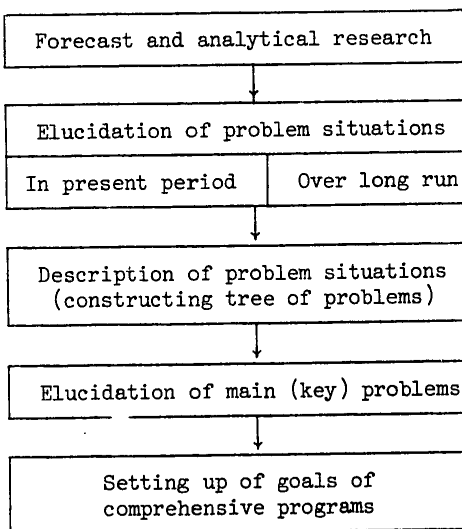
From our viewpoint, the specific comprehensive territorial programs on a scale of an oblast (kray or ASSR), economic regions and Union republics

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should be worked out first in order to provide a rational combination of sectorial and territorial planning. The necessity of working out territorial programs for these purposes stems from the acuteness of the disclosed problems, and for solving them an active mobilization of the entire complex of means and resources is required.

A comprehensive specific territorial program is a system of planning measures carried out within individual territories for solving major national economic problems within the times set by the plan. This program reflects such questions as the acuteness of the problem situation, the goal of the program, the need for resources, the time of execution, organizational and legal measures, and the impact from implementing the program.

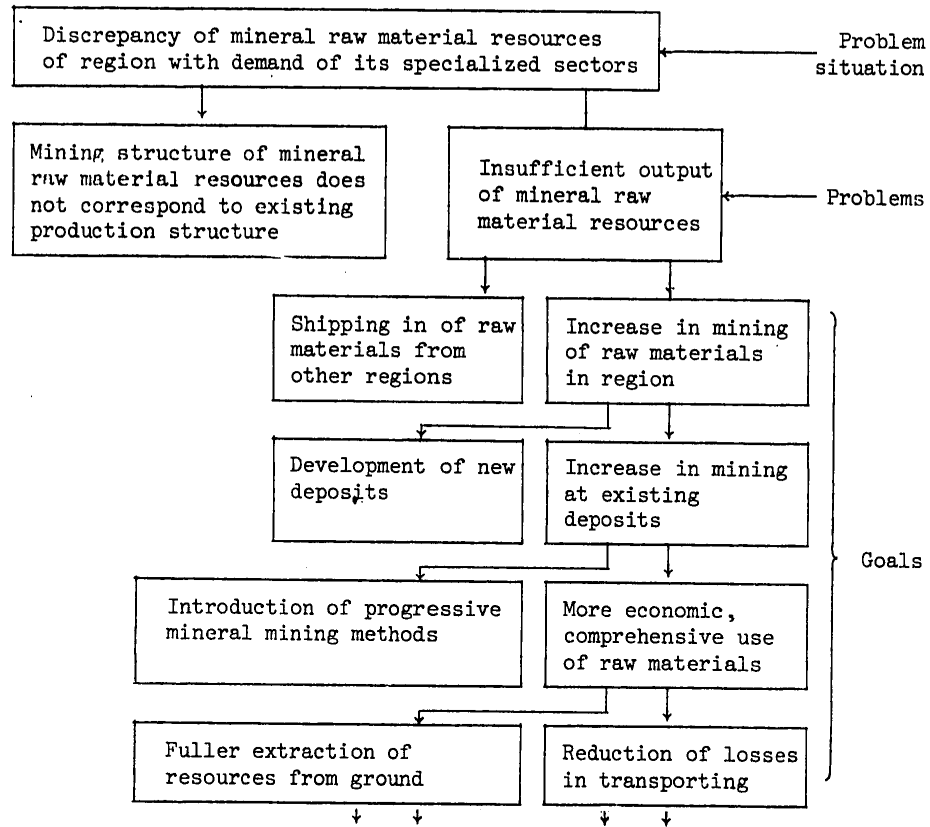
The process of setting up a territorial program can be represented in the form of a simplified schematic diagram.



Schematic Diagram of Setting Up of Specific Comprehensive Program

Problem situations in the present period and over the long run are essential for disclosing a definite disruption in the proportionality both between the individual elements of the system of the object as well as between the object and the environment. Here basic attention is given to disclosing the resource development possibilities of one or another object of territorial planning within which the specific comprehensive program is to be worked out.

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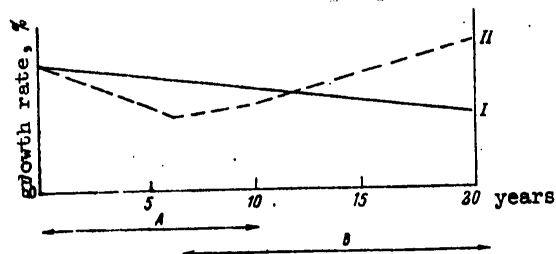


Fragment of Description of Problem Situation

A description of problem situations in constructing the tree of problems is predominantly a heuristic procedure, and is constructed on the basis of using the tree of goals. As an illustration we give a fragment of a description of a problem situation in using the mineral and raw material resources of a region.

A full description of problem situations makes it possible to approach their solution from various aspects, and to encompass the problem comprehensively, as here one can disclose all the possible goals the achieving of which is essential for eliminating the problem situations which have arisen. The subsequent isolating of the main (key) problems predetermines the setting up of the individual specific programs. However it is essential to point out that the necessity of setting up such programs arises only in the instance if the solution to this problem does not keep within the existing limits of management and the required dates.

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Influence of specific comprehensive program
on changing growth rate of production
(hypothetical example)

Growth rate of production volumes: I--Without working out program, II--As a result of implementing program; A--Period of elaboration and beginning of implementing of program, B--Period of receiving effect from implementing program.

The territorial specific comprehensive programs are a component part of a long-range territorial plan. The program does not repeat the plan, but is an unique instrument for achieving the goals of long-range development for the objects of territorial planning. The goal of working out the programs must not be identified with the goals of long-range planning. For example, the planning of the specialization and comprehensive development of the economy of economic regions and a rise in the standard of living of the population comprises the content of the territorial breakdown of the state economic and social development plans of our country.² In this regard, without a problem situation, the elaboration of territorial programs in parallel with the elaboration of territorial plans is scarcely advisable.

The necessity of working out a specific comprehensive territorial program arises in the instance that the amount of the effect which can be obtained as a result of implementing the program exceeds the amount of expenditures necessary for working out the program and introducing its results into practice. Let us explain this from a hypothetical example (see the diagram [above]).

Let us assume that in the stage of the forecast and analytical research, the basic indicators for the economic and social development of a

²The section of the state plan "The Placement of Productive Forces and the Economic and Social Development of Union Republics and Economic Regions" generalizes the indicators of the territorial breakdown of the sectorial plans and the development plans of the system under the Union republic councils of ministers.

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territorial planning object were determined for a long-range period, for example, the indicators for the growth rates of gross (net) product of the specialization sectors. Let us assume that these growth rates show a steady tendency to decline; the reason for this phenomenon has been established as a result of the research carried out. The growth of production over the long range will slow down due to the discrepancy between the raw material supplies and the needs of the specialized sectors. Consequently, for altering the negative trends it is essential to concentrate efforts on the exploration and development of new raw material sources. A specific comprehensive program presupposes such a concentration of efforts (financial, labor, material, informational, and so forth). At first, that is, during the period of working out and beginning to implement the program, due to the diverting of a portion of the resources, certain indicators of the specialized sectors can worsen, but in the future, as the measures outlined by the program are implemented, the indicators for the growth rate of gross (net) product will begin to grow rapidly. A comparison of the possible losses with the assumed effect also makes it possible to draw a conclusion on the advisability of working out the specific comprehensive programs.

Thus, the use of a targeted- or specific-program approach in territorial research provides a specific focus and constructiveness of the entire system of preplanning territorial-economic and social research in which economic geography, along with other sciences, is involved.

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